Memorandum

Date: June 6, 2023

To: Joe Rinaldi, President & CIO

From: Nathaniel Gilkey, Investment Analyst
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Re: Retirement-Savings Changes You Should Know about for 2023-24

Introduction

The Setting Every Community Up For Retirement Enhancement (Secure) 2.0 Act introduces provisions that will affect retirement savings plans, including individual retirement accounts and workplace 401(k)s. The Secure 2.0 Act was passed this past December to build off the Secure Act of 2019. Some changes will take effect this year, with more provisions coming into effect between 2024 and 2027. The act's focus is to improve conditions for retirement savings across all communities.

Changes for 2023:

1. **Age for Mandated Annual Withdrawals Raised**
   The age for taking the mandated annual withdrawals known as required minimum distributions (RMDs) was raised from 72 to 73. Individuals who were subject to the previous rules must maintain their current schedule. Further, in 2033, the age for taking RMDs will increase from 73 to 75.

2. **Lesser Sanctions for Missed RMDs**
   The penalty for missed RMDs has been reduced from 50% to between 25% and 10% if addressed promptly. The opportunity for correction is two years, beginning at the end of the year in which the RMD should have been completed. You can also request a waiver of any penalty by filing Form 5239 with the Internal Revenue Service.

3. **Statute of Limitations on Missed RMDs**
   This limits the period in which the Internal Revenue Service can impose a penalty. The statute of limitations for missed RMDs is three years and six years from the end of the year that excess contributions were made.

4. **After-tax Retirement Contributions**
   Roth contributions can now be made to Simple IRAs and Simplified Employee Pensions (SEPs) after tax. Previously, contributions to both Simple IRAs and SEPs had to be made pretax.

5. **Employer Matching Contributions to a Roth Account**
   At the employee's discretion, contributions made by an employer can be made as a Roth. However, the employee pays income tax on this contribution.

6. **Added Exceptions to 10% Early Distribution Penalty**
   Additional exceptions have been made for the 10% early distribution penalty for withdrawals from a retirement account before the age of 59 ½. These exceptions include terminal illness, net income attributable to excess contributions, and distributions in the event of a qualified disaster, up to $22,000 a year.

7. **One-Time Charitable Contribution up to $50,000**
   A charitable gift annuity, charitable remainder unitrust and a charitable remainder annuity trust is allowed under the new provision. Before, no benefits were given when making charitable contributions.

Changes for 2024:

1. **Catch up Contributions will be Indexed for Inflation**
   The $1,000 catch up contribution to IRAs and 401(k)s for individuals 50 and older will be indexed for inflation. This should further strengthen the principle of this provision helping individuals who might not have saved as much when they were younger.

2. **Qualified Charitable Contributions to be Indexed for Inflation**
   Previously, there were no benefits for these charitable contributions. Now, this $50,000 contribution will be indexed for inflation. This provision expands on the type charities that can receive the qualified charitable contributions.

3. **529 Beneficiaries Now Can Roll Over into a Roth IRA**
   If a beneficiary of a 529 education savings plan has excess funds in their account after the fact, they can now roll over the amount up to $35,000 into a Roth IRA. However, the 529 plan must have been in place for 15 years for this rollover to be possible.

4. **Roth 401(k) Contributions No Longer Subject to RMDs During Owners Lifetime**
   Roth contributions are no longer subject to RMDs since the money has already been taxed. However, if you are required to take an RMD in 2023 you still have to do so, and failure to take your RMD will result in a 25% penalty on the amount you should have withdrawn.

5. **Employer Matching Contributions can be Made on Student Loan Payments**
   Employers can now match student loan payments as if they were matching a 401(k) contribution. This should bolster growth as an attractive incentive for employers to reign in new talent to their firms.

6. **Further Exceptions to 10% Early Distribution Penalty**
   Additional exceptions have been made for the 10% early distribution penalty for withdrawals from a retirement account before the age of 59 ½. These exceptions include financial emergencies, up to $1,000 a year and for victims of domestic abuse, up to $10,000 a year indexed for inflation.

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